

# CASH BALANCE PLANS

## WOLF WEALTH MANAGEMENT, INC.

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**Retirement Savings for Successful Businesses**





## *Cash Balance Plans*

- *Maximize retirement savings*
- *Significant tax deductions*
- *Flexible plan design*

Frank, Angela, Robert and Phillip are partners of a successful high-tech company, Techmix. Techmix has 11 full-time employees in addition to the four partners. Frank and Angela have been partners for many years while Robert and Phil are newer to the partnership and have just begun buying into the company as partners. All four of the partners receive annual W-2 income of \$245,000 with additional K-1 income from their partnership.

Frank, aged 67, and Angela, aged 68, would both like to increase the amount they contribute towards their retirement. Frank doesn't feel he has done a good enough job over the years saving for his own retirement and is looking for ways to make significant tax-deductible contributions to increase his retirement nest egg. Angela, on the other hand, feels that although she needs to increase her retirement savings, she doesn't need to contribute as much as Frank. Robert, 46, and Phil, 37, would both like to save more for their retirement but have other financial obligations as well, such as mortgage payments, school loans and saving for children's college education. Due to these other financial commitments, Robert and Phil cannot afford to contribute as much to their retirement savings as Frank and Angela.

Because they are in such different stages of life, the partners are looking for a qualified retirement plan with the flexibility that would fit the unique retirement saving needs of each partner.

The partners also understand that contributions must be made for their rest of their full-time employees since a qualified plan cannot discriminate in favor of the highly compensated. While the partners like the idea of providing a retirement benefit for their employees, they would prefer to keep the costs at a minimum.

After talking with their financial professionals about their unique situation, it was suggested that a cash balance plan might be the best way to address their various needs. The partners, along with their financial professionals, work with a Third Party Administrator who designs the plan, determines the amount the partners can contribute towards the plan as well as calculating the retirement benefit they can expect to receive from the plan.

## What is a Cash Balance Plan?

- **“Hybrid” defined benefit plan:** A cash balance plan is sometimes referred to as a hybrid defined benefit plan because it acts like both a defined benefit and defined contribution plan.
- **Defined benefit plan:** Qualified retirement plan in which a participant is promised a specified future benefit, typically in the form of a monthly pension.
- **Defined contribution plan:** Qualified retirement plan in which a participant’s retirement benefit is based upon the value of his/her individual account.
- **Flexibility for business owners:** Cash balance plans offer businesses with multiple owners the ability to tailor retirement contributions based upon the unique situation of each owner.
- **Easier to understand:** Because benefits are communicated as an account balance and not an income stream, cash balance plans are easier to understand.
- **Family protection:** When a cash balance plan, like other defined benefit plans, provides incidental life insurance protection, there is a self-completing element to the plan. If the insured participant dies, the death benefit can replace his/her current earnings and offer valuable protection to the family.

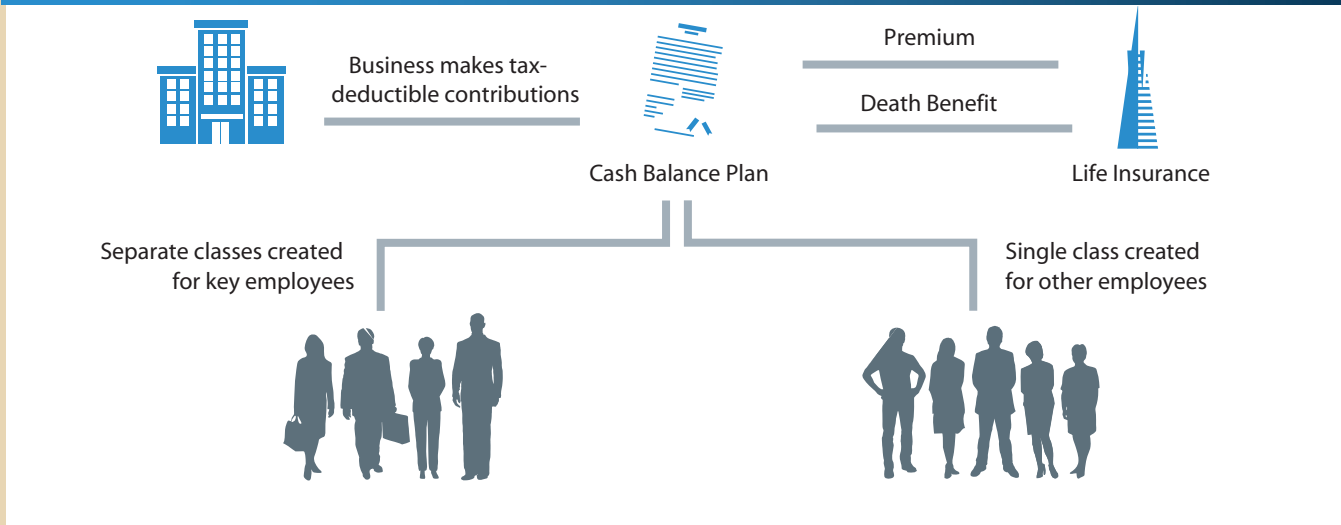
Like a defined contribution plan, the benefits of the cash balance plan are based on and communicated to participants in the form of an account balance, referred to as a hypothetical account. Like a defined benefit plan, the cash balance plan provides participants with a definite future retirement income based on plan guarantees of account value and annuity rates.

## What are the benefits of an Insured Cash Balance Plan?

- **Large tax-deductible contributions:** Like traditional defined benefit plans, cash balance plans offer business owners the opportunity to make significant tax-deductible retirement contributions.



# How does the Insured Cash Balance Plan Work for Techmix?



**Step 1:** Techmix makes tax-deductible contributions to the cash balance plan on behalf of the partners and all eligible full-time employees.

**Step 2:** Work with the TPA and qualified advisors to design the plan. Separate classes for the partners and other employees may be possible. Reasonable classifications could include: job categories, nature of compensation, geographic location, and bona fide business criteria.\* The creation of separate classes can provide optimal flexibility within the plan to customize the retirement benefits for each identifiable participant class, resulting in a significant portion of the total

plan's contributions going towards the partners. An example with separate classes for partners is shown below.\*\*

**Step 3:** A portion of the plan's assets will be invested in a diversified portfolio.

**Step 4:** The cash balance plan will also use a portion of its assets to purchase a life insurance policy, insuring the life of each participant. The plan will be the owner and beneficiary of the policies.

\* IRS Reg §1.410(b)-4.

\*\* Qualified plan design is complex. You must consult with and rely on qualified advisors.

## Results

Participants	Current Contribution	Anticipated Lump-Sum Benefit at Retirement	Anticipated Monthly Benefit at Retirement	Death Benefit	Annual Premium
Frank	\$205,810	\$1,285,327	\$11,388	\$1,252,461	\$109,147
Angela	\$ 89,769	\$ 560,609	\$4,967	\$546,155	\$47,606
Robert	\$ 65,149	\$2,258,425	\$16,351	\$1,087,161	\$33,342
Philip	\$ 35,463	\$2,258,425	\$16,351	\$802,039	\$16,926
Employees	\$ 72,476			\$1,346,569	\$35,500
Total	\$468,667			\$5,034,385	\$242,521
Partners	\$396,191			\$3,687,816	\$207,021
% of contributions to Partners	84.5%			73.3%	85.4%





# Receiving the Benefits from the Cash Balance Plan



**Retirement Benefits:** Participant receives as lump-sum or as a monthly pension benefit based on the hypothetical account value



**Survivor Benefits:** Beneficiaries receive value of participant's hypothetical account, as well as life insurance proceeds

**Retirement Benefits:** Each participant has the option to receive a lump-sum, which can in turn be rolled over to an IRA or another qualified plan.<sup>1</sup> The lump-sum amount is based upon the value of the participant's hypothetical account. Alternatively, a participant could elect to receive the retirement benefit in the form of a monthly pension.

**Survivor Benefits:** Upon the participant's death, his/her beneficiaries will receive the death benefit of the life insurance policy, of which a portion would be paid out federal income tax-free.<sup>2</sup> In addition to the life insurance policy, the beneficiaries would also receive the value of the participant's hypothetical account.

<sup>1</sup> Life insurance cannot be owned inside an IRA. Plan must surrender life insurance policy for its cash value before rolling plan assets to IRA. Life insurance can be rolled over to another qualified plan, if the plan document allows for the purchase of life insurance inside that plan.

<sup>2</sup> Death benefit amount exceeding the policy's cash value will be paid income tax-free, provided the participant included the cost of insurance protection as taxable income. Additionally, cost of insurance protection taxable to the employee may be treated as basis to be recovered tax-free from plan distributions.

## What if Life Insurance is Needed in Retirement?

- The plan may distribute the life insurance policy to the employee with the employee paying federal income tax based on the fair market value of the policy.
- The employee or his irrevocable grantor trust may purchase the life insurance policy from the plan. Policy purchase price is based on fair market value of policy.

## Mission Accomplished with the Cash Balance Plan

With the design and implementation of the Cash Balance Plan, Techmix is able to accomplish a variety of goals such as:

- Significant contributions for retirement savings
- Large income tax deductions
- Minimizing the costs of providing retirement benefits for all of its employees
- Family protection in the event of death
- Guaranteed income in retirement
- Protection of retirement assets from creditors
- Use of pre-tax dollars to cover personal life insurance needs



# Ross S. Wolf

Ross has over 25 years of experience in retirement planning, estate planning, wealth preservation, executive benefits and family legacy planning. He holds a Life & Health insurance licenses in Washington, Oregon, California, Arizona, Florida, Michigan, Ohio and North Carolina and is an IAR (Investment Advisor Representative) in Washington.

Ross has an B.A. degree in Finance from Florida State University in Tallahassee, FL. and earned his Chartered Life Underwriter (CLU) and Chartered Financial Advisor (ChFC) designations from The American College in Bryn Mawr PA.

Ross started his career with Mass Mutual Life in 1993 where he earned the New Agent of the Year award, achieved the prestigious Million Dollar Round Table award and became the first District Manager for Mass Mutual in Atlanta, GA. Ross was also a District Manager and the Small Business Estate and Retirement Planning director for Northwestern Mutual Life for almost 3 years before starting his own firm. Ross moved to Seattle, WA in 2003 where he started Pacific Financial Advisors, Inc. and Wolf Wealth Management, Inc. Ross teaches continuing education to other Financial planners throughout Washington on the subjects of Financial Planning, Estate Planning and the Utilization of Reverse Mortgages for seniors.



**Ross S. Wolf, IAR, CLU, ChFC**  
*Founder & C.E.O. of Pacific Financial Advisors, Inc. and Wolf Wealth Management, Inc.*

As an educator, consultant and athlete, Ross has traveled to 46 states and 7 different countries. His talents have been featured in numerous newspapers and magazines throughout the United States. As a boy Ross was a nationally ranked and state champion bicycle racer and today continues to challenge himself as a professional Formula 1000 race car driver, Road Biking and as a Krav Maga student.

## About Us

We're a group of financial planners with various backgrounds of expertise. We're here to help all of our clients and their unique needs related to their retirement and financial help. No future is too big or too small for us, our goal is to simply help create a positive future for all of our clients.

Pacific Financial Advisors and Wolf Wealth Management have well over 50 years of financial-planning experience between it's planners.

We are at the forefront of this quickly changing economy and we work closely with our clients because we are fully committed to meeting and exceeding expectations. We also believe in keeping our services affordable to our clients, we make sure to work around your budget.

We are proud that so many of our clients have repeatedly turned to us for guidance and assistance with their financial futures, and we work hard to earn their loyalty every day.





SUCCESS BY DESIGN



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